

## Message Text

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PAGE 01 TEHRAN 07071 121239Z

53

ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 EB-07 CIEP-01 TRSE-00 STR-04 OMB-01

CEA-01 COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01

FEAE-00 ERDA-05 FPC-01 INT-05 SAM-01 OES-06 ACDA-07

/126 W

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R 121205Z JUL 76

FM AMEMBASSY TEHRAN

TO AMEMBASSY ISLAMABAD

INFO SECSTATE WASHDC 8073

AMEMBASSY LONDON

C O N F I D E N T I A L TEHRAN 7071

E.O. 11652: GDS

TAGS: EFIN, PK, IR

SUBJ: IRANIAN GUARANTEE OF CITIBANK CONSORTIUM LOAN TO  
PAKISTAN

REF: (A) TEHRAN 3459 NOTAL, (B) TEHRAN 3537, (C) STATE 119744,  
(D) TEHRAN 6035 NOTAL, (E) ISLAMABAD 5913 NOTAL

1. AS REPORTED IN REFS A,B AND D, IRANIAN GOVERNMENT GUARANTEE  
OF \$300 MILLION CITIBANK CONSORTIUM LOAN TO PAKISTAN HAS BEEN  
AGREED TO IN PRINCIPLE BY GOI. SINCE THE DECISION WAS POLITICAL  
AND AT HIGHEST LEVEL, BEST AVAILABLE INFORMATION CONCERNING THE  
GUARANTEE, AS LEARNED FROM CENTRAL BANK AND LOCAL CITIBANK OFFICE,  
MAY BE INCOMPLETE. THESE SOURCES CONFIRM EMBASSY VIEW THAT SINCE  
A GUARANTEE ASSUMES MUCH THE SAME CHARACTER AS AN IRANIAN FOREIGN  
BORROWING, ADDING TO ITS TOTAL FOREIGN EXPOSUE, THE CENTRAL BANK  
WILL WANT TO DETERMINE THE APPROPRIATE TIME TO ANNOUNCE IT. WITH  
THE STILL PENDING \$500 MILLION BORROWING BY THE GOI, IT IS REASONABLE  
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PAGE 02 TEHRAN 07071 121239Z

TO ASSUME THAT THE GUARANTEE WILL BE LEAST AWAIT ITS CONCLU-

SION. LOAN'S TIMING MAY HAVE BEEN DISCUSSED IN RECENT, INTIMATE DISCUSSIONS BETWEEN THE SHAH AND PM BHUTTO. REF D REPORTED CONSIDERATIONS BY THE GOI CONCERNING CROSS DEFAULT CLAUSES IN ITS OWN FOREIGN BORROWINGS WHICH WERE INTERPRETED BY BANKERS AS GOI CONCERNS THAT ANY DEFAULT BY PAKISTAN COULD ACCELERATE DEBT OWED BY THE GOI. FOR THIS REASON THE GOI SOUGHT AND RECEIVED EXEMPTION OF GOVERNMENT TO GOVERNMENT GUARANTEES AND LOANS FROM CROSS DEFAULT CLAUSES IN ITS OWN BORROWINGS.

2. CITIBANK OFFICER BELIEVES THAT THE GOI HAS NOT REVIEWED THE PAKISTAN LOAN DOCUMENT. IT CONTAINS SOME SPECIAL PROVISIONS THAT IRAN HAS REJECTED IN ITS OWN BORROWINGS, BUT THESE OBJECTIONS COULD BE OVERLOOKED EITHER BECAUSE OF THE POLITICAL MOTIVATION IN THE GOI'S GUARANTEE OR JUST BECAUSE IT IS A GUARANTEE, NOT A BORROWING. AMENDING REF A, THE LOAN AGREEMENT PROVIDES A TERM OF 84 MONTHS(SEVEN YEARS) WITH AN INTEREST RATE OF ONE-AND-A-HALF PERCENT OVER LIBOR PLUS COMMITMENT, MANAGEMENT AND OTHER FEES NOT EXPLAINED TO EMBOFF, WHICH IN TOTAL MAY PUT IT AT AROUND TWO PERCENT OVER LIBOR.

3. LOCAL CITIBANK REPRESENTATIVE OFFICE OFFICER, WHO HAS COPY OF THE \$300 MILLION PAKISTAN LOAN DOCUMENT, SAID THAT THE ONLY REFERENCE TO THE LOAN PURPOSE IS CONTAINED IN THE "REPRESENTATIONS AND WARRANTIES" WHICH STATES "PRIVATE AND COMMERCIAL ACTS." LOAN, WHICH WAS HEW HORK JURISDICTION, REQUIRES A RESTATEMENT BY THE GOP ON OCCASION OF EACH DRAWDOWN OF THE "PRIVATE AND COMMERCIAL ACTS" PURPOSE. OFFICER VOLUNTEERED VIEW THAT IT IS LIKELY THE GOP WOULD USE SOME OF THE PROCEEDS FOR MILITARY PROCUREMENT(CONFIRMING REF E), BUT THAT THE BANK CONSORTIUM WOULD BE HARD PRESSED TO PROVE IT.

HELMS

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## Message Attributes

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